

Piecemeal initiatives like Demonetisation can't kill black money & bribery

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Government's decision to demonetise Rs. 500 and Rs 1000 notes has evoked mixed reactions - very strong support from some quarters and muted to cynical criticism from others.

The trade-off between the benefits of so-called surgical strikes on black money and collateral damage to law-abiding citizens is hard to gauge. Reckon the collateral damage as colossal time loss inflicted on the masses and acute discomfort to persons in tight situations such as making payments to private hospitals and chemists and organizing solemn events such as marriages. Factor in temporary disruption in economic activities that are largely cash driven.

Demonetisation is thus like chemotherapy that harms not only cancerous cells but all cells that are essential to sustain life in a human being. And as often happens in such treatment, supposedly eradicated cancerous cells return to harm the body (read economy) with vengeance after a few years. Black money and its cousin corruption are cancers of the worst sort.

The fact is that demonetization puts whole economy and society to great deal of inconvenience just for the sake of punishing a section of holders of black money. Demonetisation affects only those who did not convert their black money into bullion and diamonds, real estate and other expensive assets.

"Demonetisation curbs the white economy and will also curb the black economy in a credit constrained regime," concluded a working paper titled 'Aggregate Demand with Parallel Markets' published by National Institute of Public Finance and Policy (NIPFP) in 1989.

It is perhaps because of this conviction that successive governments including Vajpayee Government avoided the soft option of demonetization. It is certainly soft as compared to organizing frequent searches and seizures at premises of suspected black money operators/tax evaders/bribe takers; regular surveillance of ministers and officials at bribery-prone jobs, shedding all discretionary powers and ordering double audit of sensitive transactions and giving full autonomy to enforcement agencies including Lok Pal, which remains unborn after about 40 years of labour. Don't forget other hard options for rulers- introducing simple, stable and durable tax regime and reducing controls to a bare minimum.

If the country's experience with previous two instances of demonetisation of high denomination notes - 1st in 1946 & 2nd in 1978, the amount of black money eradicated this time might also be small.

It is here pertinent to quote Finance Ministry-commissioned 1985 study on black money. Captioned 'Aspects of the Black Economy in India', the study by National Institute of Public Finance and Policy (NIPFP), stated:

"crude index of the penal success of this measure is given by the value of high denomination notes which were not presented for conversion. By this yardstick, neither venture was success."

The study added:

"Quite apart from the relatively paltry results obtained on the two occasions on which it has been tried, there are other good reasons to doubt the efficacy of this measure in combating black income generation."

The reasons are: 1) The measure is limited to inflicting penalties on those who hold their black wealth in the form of cash at the moment of demonetisation. 2) Second, even for holders of cash, there exist avenues for converting high denomination notes into lower valued ones, at discount, through intermediaries. 3) Demonetisation does not strike at various root causes of generation of black money. 4) It disturbs only temporarily the black economy and serves an opportunity for black economy stakeholders to be on guard in future.

We can safely assume that these four factors have not been disputed by three black money studies commissioned by UPA Government and tightly kept under the carpet by NDA Government. In any case, cannons of good governance require the Government to make public three studies submitted by NIPFP, National Council of Applied Economic Research (NCAER) and National Institute of Financial Management (NIFM) more than a couple of years back.

Public expects Modi Government to crack the whip on politicians and top officials who largely avoid black money net by engineering a web of cashless corrupt practices. These can be in the form of quid pro quo deals with favoured corporate houses.

Such deals run into several crore of rupees. They take the form of equity investments, consultancy fees and corporate social responsibility donations to entities controlled by persons close to favour-dispensing ministers and officials. Some of these benefiting entities are registered abroad including tax havens.

This brings us to larger issue of Government's reluctance to unveil a comprehensive strategy to fight twin and related evils of black money and corruption.

In the absence of multi-facet and integrated approach to rooting out corruption and black money, piecemeal and easy options like amnesty schemes for tax evaders and demonetisation would leave these evils to survive and hit back like antibiotics-resistant pathogens.

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